

# ARIZONA STATE RETIREMENT SYSTEM

# Financial Horizons

SUMMER 2002

## Letter from the Chairman of the ASRS Board



As the 50th anniversary of the establishment of the Arizona State Retirement System (ASRS) approaches, the year ahead will be filled with great opportunities and challenges. As Chairman of the Board, I recognize that maximizing our opportunities and meeting the challenges ahead will require the combined efforts of the Board, the ASRS administrative staff, the Legislature, the Governor and our members.

Among the challenges facing the ASRS in the coming year are: selecting a new director to lead the ASRS into its second half century; heightening the awareness and appreciation of the ASRS as a tremendous asset for the state of Arizona and a great benefit to

public employees throughout the State; implementing the new Supplemental Retirement Savings Plan and modified Deferred Retirement Option Plan program; managing our investments in a new and dynamic market environment; and addressing the issues surrounding affordable, quality health insurance for all of our members, especially retirees.

In the weeks ahead, the Board will be initiating a nationwide search for a new director. While recognizing the many responsibilities of the Board, finding the right leader to guide the ASRS administrative staff in the years ahead is the single most important task facing the Board this year. Information concerning the selection process and progress will be routinely disseminated at monthly Board meetings and through the ASRS's Web site.

The last 50 years have seen a number of substantial changes in the structure and operation of the Arizona State Retirement System, but its principal goal — providing safe, assured, and reliable retirement benefits to public employees in Arizona — has not changed. The last 50 years have seen substantial change in the circumstances surrounding the ASRS. The financial markets have grown increasingly complex, and managing the ASRS's roughly \$19 billion in assets has required increased sophistication within the ASRS investment staff as well as at the Board level.

The ASRS will also be taking steps to improve service to our members and to improve communication among the ASRS and the employers and members of the ASRS. We are embarking on new outreach efforts and look forward to hearing suggestions and recommendations from individual members and employers.

As Arizona has grown dramatically over the last 50 years, so has the number of ASRS members. With that growth has come a number of challenges along with greater member expectations for the performance and responsiveness of the ASRS. In the year ahead, it is our intention to continue improving the service provided to members by the ASRS as well as

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### THE ASRS MISSION

The mission of the ASRS is to contribute toward its members' long-term financial security by providing retirement, disability, survivors' and health insurance benefits, and by counseling and disseminating information to its members.

Furthermore, the mission of the ASRS Web site is to provide timely and useful information on-line to ASRS members, the Arizona State Legislature, Governor's Office, employers, staff, vendors, and the public.

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### ASRS Board

Alan Maguire, Chairman, Phoenix  
Member at large; term expires 2003

Bonnie Gonzalez, Vice-Chairman,  
Flagstaff  
State employees; term expires 2003

Charlotte Borchert, Chandler  
Retirees; term expires 2005

Jim Bruner, Scottsdale  
Public; term expires 2005

Dr. Chuck Essigs, Scottsdale  
Educators; term expires 2004

Norman Miller, Phoenix  
Public; term expires 2004

Karl L. Polen, Phoenix  
Public; term expires 2004

Ray Rottas, Paradise Valley  
Public; term expires 2003

N. Carl Tenney, Town of Chino Valley  
Political Subdivisions;  
term expires 2005

### Administration

LeRoy "Gil" Gilbertson, Director

Anthony Guarino, Deputy Director,  
Chief Operations Officer

Paul Matson, Chief Investment Officer

Richard Stephenson, Deputy Director  
External Affairs

improving the quality, frequency, and thoroughness of the information provided to employers for further dissemination to ASRS members.

We must constantly remember that the Arizona State Retirement System is the largest organization in Arizona that is dedicated to servicing the needs and expectations of public employees and retirees throughout the state. And we must be constantly dedicated to making the Arizona State Retirement System second to none!

I look forward to meeting and talking with many members and retirees throughout the course of the coming year. In the meantime, please feel free to contact me at the ASRS by email at [maguire@asrs.state.az.us](mailto:maguire@asrs.state.az.us) or by voice mail at (602) 240-5321 in metro Phoenix, (520) 239-3100 extension 5321 in metro Tucson or (800) 621-3778 extension 5321 outside metro Phoenix and Tucson.

Alan Maguire  
ASRS Board Chairman

*Alan Maguire first served on the ASRS Board in 1987 representing active state employees and served as Director of the ASRS in 1993.*

## 2002 Legislative Review

**In a year that saw the legislature struggling with serious budget problems, one Arizona State Retirement System bill, Senate Bill (SB) 1095 (federal conforming changes), was approved.**

**SB 1095 was signed by Governor Hull and became effective on May 15, 2002.** SB 1095 conforms state law to changes in federal law resulting from the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The law:

- Permits, after December 31, 2001, funds from IRAs, 403(b) and 457 deferred compensation plans to be transferred on a pre-tax basis to purchase permissive service credit, or to repay prior cash outs, in governmental defined benefit plans.
- Increases the annual benefit limit for defined benefit plans to \$160,000.
- Increases the annual contribution limits under 415(c) to the lesser of 100% of compensation or \$40,000, indexed in \$1,000 increments.
- Increases the amount of compensation that may be taken into account under qualified retirement plans to \$200,000, indexed in \$5,000 increments.
- Repeals coordination requirements for 457 plans, so that 457 contributions are not limited by 401(k) or 403(b) contributions.

Additionally, SB 1095 repealed the scheduled June 30, 2003, cut-off of the Return to Work Program. The Return to Work Program allows all ASRS retired members who have achieved normal retirement to return to work full-time one year after terminating employment. The member continues to receive all retirement benefits, but does not make any retirement or long-term disability (LTD) contributions to the ASRS and does not accrue any additional benefits in the ASRS, nor is the member eligible for LTD benefits.

**HB 2558 (retirees; health insurance; enhanced subsidy) was passed in both the House and Senate, but was vetoed by Governor Hull.** HB 2558 would have extended the enhanced health insurance premium benefit for rural (non-service) areas from June 30, 2003 to June 30, 2004. The bill clarified that the enhanced health insurance premium benefit was in addition to the permanent health insurance premium benefit, applied the incremental health insurance premium benefit percentage increase based on years of service between 5 and 10 years to the enhanced health insurance premium benefit, and clarified the definition of "non-service area."

In her veto message, Governor Hull stated that while she acknowledges the problem of steadily rising health care costs, she was concerned that continuing premium subsidies would not solve the long-term problem; "Last year I signed Senate Bill 1107, which started premium subsidies on a temporary basis. I encouraged you then, as I do now, to establish a retiree health care benefits study committee to identify long-term solutions that will treat all retirees fairly, regardless of where they live. Without a comprehensive plan, I am

concerned that this subsidy will be extended year after year. This will ultimately create a liability for our retirement pension fund in excess of \$450 million over a 17-year period and causes an increase in the annual contributions made by the State and its employees, as well as by other participating employers and members."

The non-service area health insurance premium subsidy will continue until June 2003. The issue of extending it beyond June 30, 2003, can still be addressed in the next legislative session.

## **Legislative News Continued... Spousal Consent to Member Pension Benefit Choices**

In the 2002 legislative session Senate Bill 1004, sponsored by Senator Edward Cirillo, proposed the establishment of mandatory requirements for married ASRS members in naming their beneficiary at retirement, when selecting their pension benefit options at retirement, and upon making any change to their beneficiary or payment option after retirement. The legislation recognized the community property laws in Arizona and was similar to provisions that are already in effect for private pensions. Even though the legislation failed, the issue that it addressed is a serious one.

While married members are not required to obtain the consent or acknowledgement of their spouses for any of these things now, the ASRS encourages members to thoroughly discuss these issues with their spouses. The impact on a person who must deal with the loss of a spouse and the loss of their income, health insurance and other benefits is substantial.

## **Supplemental Retirement Savings Plan Status**

Legislation was approved in 2001 that allowed the Arizona State Retirement System to offer a supplemental defined contribution plan that will allow you to maximize your retirement savings. The plan is called the Supplemental Retirement Savings Plan (SRSP) and allows you to save for retirement on a pre-tax basis.

The ASRS is still awaiting final action by the Internal Revenue Service (IRS) regarding the SRSP and has been working with the IRS to achieve a positive result. The ASRS cannot accept contributions, including contributions for the modified DROP program, until the final action is taken by the IRS. Employers must enroll in the SRSP before their employees can make contributions. The ASRS is currently in the process of enrolling employers and they may contact the ASRS Employer Relations Manager, Michele Briggs, regarding SRSP enrollment at 602-240-2022 in Phoenix, 520-239-3100, ext. 2022 in Tucson or toll-free outside metro Phoenix and Tucson at 1-800-621-3778, ext. 2022.

## **After Senate Bill 1095: A World of Service Purchase Possibilities**

### ***Retirement May Be Closer Than You Think***

With the passage of Senate Bill (SB) 1095 come exciting new options and flexibility for active members of the ASRS. SB 1095 enhances your ability to purchase credited service with the ASRS and gives you a multitude of new ways to pay for permissive credited service. Primarily, you may now utilize funds from state - (or political subdivisions of a state) sponsored 457 deferred compensation plans, tax deferred or sheltered annuities under 403(b) of the Internal Revenue Code, and traditional IRAs. These three retirement plans are widely held among public employees and educators in Arizona and represent an exciting new resource of funds available to purchase credited service.

**Continued on Page 4**

### **Two Ways to “Rollover”**

Generally speaking, you may transfer or roll over eligible rollover contributions to purchase permissive service credit in two circumstances:

- 1.) You may transfer or rollover monies for a new service purchase request.
- 2.) You may transfer or rollover eligible monies to pay off the balance of an existing Payroll Deduction Agreement upon retirement or separation of service.

As always, you must wait until you receive a cost letter from the ASRS before you may request transfer/rollover paperwork. It is also important to note that after all the required transfer/rollover documentation has been received **in good order**, the ASRS will issue a letter approving the transfer/rollover. Payment will be accepted at that time. Except for an IRA rollover, no payments will be accepted until the ASRS letter of approval is issued.

### **Still Think You Can’t Afford It?**

Another new option to pay for a service purchase is the “partial lump sum retirement distribution,” which enables you to take 1 to 36 months of your lifetime monthly annuity amount in a lump sum at retirement in exchange for receiving a lesser annuity payment for life. You may use up to 100% of your lump sum distribution to pay for a new service purchase request or to pay off an existing Payroll Deduction Agreement. The amount transferred would be an “in-house transfer” and would **not** be subject to tax withholding. If you have eligible service time you would like to buy and plan on using the partial lump sum distribution to pay for it, please start your service purchase request four to six months before your retirement date.

## **SB 1095 - Rollover Into the ASRS - Quick Reference Guide**

<b>YES</b>		<b>NO</b>	
<b>Eligible Rollovers into the ASRS to Purchase Service</b>		<b>Not Eligible to Rollover into the ASRS for Any Reason</b>	
<b>401(k) Plan</b>	<b>Qualified Pension Plan</b> In 401(a) of the Code	<b>Roth IRA</b>	<b>Simple IRA</b> Not Eligible if less than 2 years old
<b>Qualified Profit Sharing Plan</b>	<b>Qualified Annuity</b> Under 403(a) of the Code	<b>Coverdell Education Savings Account</b> (Education IRA)	<b>Insurance Plans</b>
<b>457 Deferred Comp</b> From a State or Local Government Employer	<b>Tax Deferred Annuity</b> Under 403(b) of the Code	<b>Minimum Distributions Due to Age 70 1/2</b>	<b>Hardship Distributions</b>
<b>Traditional IRA</b> (Money must be Pre-tax)	<b>Conduit IRA</b> Originating from a Qualified Plan	<b>Any Distribution Not Includable in Gross Income</b> (After Tax)	<b>Equal Periodic Payments Made in Excess of 10 Years</b>
<b>Simple IRA</b> Only if it has existed for at least 2 years	<b>SEP IRA</b>	<b>Equal Periodic Payments Made for Life Expectancy</b>	<b>Deferred Comp</b> Not Maintained by a State or Local Government Employer

September 30 through October 25, 2002 has been designated as the open enrollment period for the ASRS retiree health care plans. **Member elections will become effective January 1, 2003.**

## ASRS Retiree Health Insurance Open Enrollment

Open enrollment applies to any retired member of the ASRS, Public Safety Personnel Retirement System (PSPRS), Elected Officials' Retirement Plan (EORP), Corrections Officer Retirement Plan (CORP), University Optional Retirement Plans (UORP), or any member who is receiving a long term disability (LTD) benefit from the ASRS program and who is no longer eligible for health benefits through his or her former ASRS employer. Members or any eligible dependents who have not taken the opportunity to enroll previously in one of the ASRS medical or dental plans also will be able to enroll.

This open enrollment period is **not** a positive re-enrollment of every member. **In other words, no action on the part of a retired member or LTD recipient is required if you:**

- are already enrolled with the ASRS in a medical and/or dental plan and do not wish to make a change, or
- are not currently enrolled for ASRS coverage and do not wish to enroll for coverage at this time, or
- are enrolled in your former employer's health insurance program and do not want to change to the ASRS coverage.

To make the open enrollment process easier to understand, a flow chart will be included in your open enrollment packet. It will illustrate what steps you need to take to accomplish your desired or needed goals for open enrollment. In addition, presentations are scheduled throughout Arizona during October to further explain each portion of your retiree health insurance program. The schedule of meetings also will be included in your open enrollment packet.

Open enrollment packets are scheduled to be mailed in late September. If you have not received your packet by October 3, please contact the ASRS Member Services Division to request a packet. All packets are mailed to the address of record on file with the ASRS. Address changes you have made with your former employer may not be updated in your ASRS data file. It is your responsibility to let the ASRS know if and when you have had an address change.

Effective September 18th, a special phone number for open enrollment has been set up in Phoenix at 602-240-5350, in Tucson at 520-239-3100 extension 5350, or from outside Phoenix and Tucson at 800-621-3778 extension 5350. Please listen carefully to the voice menu as it was recently changed to accommodate open enrollment.

## ASRS Board Approves 2003 Health Care Plan Premiums & Plan Designs

At its public meeting held on August 16, 2002, the ASRS Board approved the medical and dental plan premiums and design changes for 2003. The recommendations to the Board for the 2003 renewals came from the Health Insurance/Long Term Disability Board Committee which were proposed by the ASRS Health Insurance Advisory Committee (see article on page 6 for more information).

In short, **PacifiCare will not increase premiums** on their indemnity, PPO, Senior Supplement, and Medicare+Choice HMO plans, but will increase its non-Medicare HMO plan premium by 3%. **Fortis DentalCare will not increase premiums** on their pre-paid dental plans, but will increase the indemnity dental plan premiums by 12%.

In holding premiums constant for 2003, PacifiCare did request and the ASRS Board approved, minor modifications to each plan's design. Retiree representatives of the Health Insurance Advisory Committee who saw premiums dramatically increase last year welcomed the trade-offs.

Complete details of plan changes will be available in member open enrollment packets that are scheduled to be distributed via U.S. Postal Service in late September.



# More Health Insurance Information

## ASRS Health Insurance Advisory Committee

The ASRS convened a committee of retiree representatives from various major public employee and retiree associations as well as the state's other retirement systems and plans. The committee is charged with the responsibility of making recommendations to the ASRS Health Insurance/Long Term Disability Board Committee regarding ASRS retiree health insurance plans; educating itself about the substantive issues affecting senior health care; serving as a sounding board for ideas and concerns to prevent or minimize systemic problems in the administration of retiree health care; and providing insight and representation on the direction of "their" health care plans.

The committee met three times this year to review PacifiCare's and Fortis DentalCare's 2003 renewals, to discuss the recommendations made by the Arizona State Senate Ad Hoc Committee on Public Employees Retiree Health Care Benefits, and to be educated on a number of issues ranging from the "Canadian connection" for discounted prescription drugs to the popular "Silver Sneakers" program.

Committee members represent the following organizations:

- AZ Education Association – Retired
- AZ Federation of State, County, and Municipal Employees
- AZ Association of School Business Officials
- All AZ School Retirees Association
- ASU Retirees Association

- NAU Retirees Association
- Arizona State Retired Employees Association
- Public Safety Personnel Retirement System
- League of Cities and Towns
- Maricopa County Community College Retiree Association
- UA Retirees Association
- AZ School Administrator's Association
- Corrections Officer Retirement Plan
- Elected Officials' Retirement Plan
- AZ State Retirement System

## Open Enrollment Periods: Arizona Department of Administration (ADOA) vs. Arizona State Retirement System (ASRS)

Each year, confusion reigns for retirees during open enrollment time. **If the Arizona Department of Administration (ADOA) provides your retiree health insurance benefits**, your open enrollment period usually runs from August into September with an effective date of coverage being October 1. **If your retiree health insurance benefits are provided by the Arizona State Retirement System**, your open enrollment period is the month of October with an effective date of coverage being January 1.

**Many times retirees with ADOA benefits are confused about what to do. After all, they just complete one open enrollment period through ADOA when along comes another packet of benefits information from the ASRS proclaiming yet another open enrollment period.**

**Here is a simple suggestion:** Study the material provided to you by the ADOA, make your retiree health care selection and return the enrollment form by the stated due date. Your coverage through the ADOA will become effective Octo-

ber 1. If, after you receive the ASRS retiree health care information, you believe that the ASRS may offer you a better value, then make new elections and return the ASRS enrollment form by October 25. You will also need to notify the ADOA **in writing** that you would like to discontinue your health insurance benefits with ADOA effective December 31. The ASRS coverage will then become effective January 1. Please keep in mind that once you decide to go with ASRS benefits, you may no longer elect ADOA coverage in the future. On the other hand, if you are satisfied with your ADOA coverage, ignore the ASRS open enrollment packet and your ADOA benefits will continue.

## Are You a Retiree or LTD Recipient Enrolled in a Health Care Plan Provided by Your Employer?

If you are enrolled in a participating employer health care plan and you wish to become enrolled in the ASRS retiree health care program, you must complete an ASRS health insurance enrollment form and return it to the ASRS by the close of the open enrollment period (October 25<sup>th</sup>) to have your ASRS coverage effective on January 1, 2003.

You should be aware when your employer conducts its open enrollment so that your coverage with them does not lapse before your ASRS coverage begins. Also, if you are receiving your employer's health care program because of a COBRA event, you should be aware when that coverage terminates. You have a 31-day grace period upon termination of your employer's COBRA coverage to enroll in an ASRS health care plan.

If you fail to enroll with the ASRS in a timely manner you will have to wait until the next ASRS open enrollment period to complete a health insurance enrollment form and be eligible for the ASRS retiree health care program.

## Verify Your Address with the ASRS

If you are a retiree or a long term disability recipient, the ASRS open enrollment period is coming soon as described in the articles on the previous pages of this newsletter. You will receive your health insurance open enrollment packet at the address we show in our records. So, if you have moved, please let the ASRS know.

If you are an active member, your employer may not forward your change of address to the ASRS. Consequently, you may miss out on periodic updates, such as this quarterly newsletter, and may not be aware of other ASRS activities.

If you have Internet access, you can download the Change of Address form by going to ([www.asrs.state.az.us](http://www.asrs.state.az.us)), clicking on "Forms," and then selecting the "Change of Address" form. If you do not have access to the Web, please call our Member Services Division and a form will be sent to you. The call center can be reached at (602) 240-2000 in metro Phoenix, (520) 239-3100 in metro Tucson or 1 (800) 621-3778 outside metro Phoenix and Tucson.

## DON'T FORGET! Open Enrollment Closes Friday, October 25, 2002

**The open enrollment period for health insurance elections will close Friday, October 25.**

This means that if you are making new elections or adding or deleting dependents from your health insurance coverage, **your enrollment form must be received by the ASRS or be postmarked no later than midnight, Friday, October 25. You must do this in order for your requested election(s) to be effective on January 1, 2003.**

If you wish, or are required, to make a plan change and you fail to submit your completed enrollment form by the close date, your election(s) will not become effective. Consequently, you may lose coverage and will not be eligible to re-enroll in the ASRS retiree health insurance program until the next open enrollment, which will take place in the fall of 2003. However, should you experience a "qualifying event" during the course of the year, you may enroll in an ASRS retiree medical and/or dental plan at that time.

## BULLETIN BOARD



### Annual Statements

ASRS member statements reflect fiscal year information from July 1 to June 30. The ASRS will begin mailing the statements for July 1, 2001 to June 30, 2002 in late October. Your statement contains information such as your projected pension income, years of credited service and beneficiary. Your statement will be mailed to the address that we have on file. If you have moved, or are planning to move, please make sure that the ASRS is aware of it. If you have Internet access, you can download the Change of Address form by going to ([www.asrs.state.az.us](http://www.asrs.state.az.us)), clicking on "Forms," and then selecting the "Change of Address" form. If you do not have Internet access, you may obtain a form by calling our Member Services Division at (602) 240-2000 in metro Phoenix, (520) 239-3100 in metro Tucson or 1 (800) 621-3778 outside metro Phoenix and Tucson. Once you receive your member statement, please take a moment to review it carefully.

### Does the ASRS Have Your Correct Beneficiary on File?

Please let the ASRS know if you change your beneficiary. You may obtain a form on our Web site ([www.asrs.state.az.us](http://www.asrs.state.az.us)), click on "Forms" then select the "Change of Beneficiary" form. If you do not have access to the Internet, please call our Member Services Division at (602) 240-2000 in metro Phoenix, (520) 239-3100 in metro Tucson or 1 (800) 621-3778 outside metro Phoenix and Tucson.



## Financial Horizons

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### COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write the ASRS Director, LeRoy Gilbertson with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:  
LeRoy Gilbertson, Director  
Arizona State Retirement System  
P.O. Box 33910  
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Stephanie Marries, Editor  
Financial Horizons  
P.O. Box 33910  
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Ami Bradford, ADA Coordinator, at (602) 240-2072 in metro Phoenix, (520) 239-3100 ext. 2072 in metro Tucson or 1 (800) 621-3778 ext. 2072 outside metro Phoenix and Tucson. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

### CONTACT US!

**ON THE WEB:**  
[www.asrs.state.az.us](http://www.asrs.state.az.us)

**PHOENIX OFFICE:**  
3300 North Central Avenue  
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**TUCSON OFFICE:**  
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(520) 239-3100

**OUTSIDE METRO PHOENIX  
AND TUCSON:**  
Call Toll Free at (800) 621-3778

## Investment Rates of Return

This graph reflects the rates of return for the period ending June 30, 2002.

